

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Bay Arenac Behavioral Health	County Bay
Fiscal Year End September 30, 2006	Opinion Date January 9, 2007	Date Audit Report Submitted to Sate 2/15/07	

We affirm that:

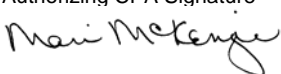
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- |     | YES                                 | NO                       | Check each applicable box below. (See instructions for further detail.)   |
|-----|-------------------------------------|--------------------------|---|
| 1.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.   |
| 2.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.   |
| 3.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.  |
| 4.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has adopted a budget for all required funds.   |
| 5.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute.   |
| 6.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.   |
| 7.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.  |
| 8.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements.   |
| 9.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin).  |
| 10. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is free of repeated comments from previous years.  |
| 12. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The audit opinion is UNQUALIFIED.   |
| 13. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).  |
| 14. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute.  |
| 15. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely.  |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	No comments 2005-06	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Yeo & Yeo, PC		Telephone Number 989-793-9830	
Street Address 3023 Davenport		City Saginaw	State MI
Authorizing CPA Signature 		Printed Name Mari McKenzie	License Number 10725

**Bay-Arenac Behavioral Health**

**Bay City, Michigan**

**Annual Financial Statements,  
Auditors' Report  
and  
Single Audit**

**September 30, 2006**

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## Independent Auditors' Report

Bay-Arenac Behavioral Health  
Bay City, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bay-Arenac Behavioral Health as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Bay-Arenac Behavioral Health's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Bay-Arenac Behavioral Health as of September 30, 2006 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2007, on our consideration of Bay-Arenac Behavioral Health's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bay-Arenac Behavioral Health's basic financial statements. The accompanying Substance Abuse Prevention and Treatment Schedules identified in the table of contents are presented for purposes of additional analysis as required by the Michigan Department of Community Health, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bay-Arenac Behavioral Health's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bay-Arenac Behavioral Health's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Yeo & Yeo, P.C.*

Saginaw, Michigan  
January 9, 2007

This section of the Bay-Arenac Behavioral Health's (the Authority) annual financial report presents management's discussion and analysis of financial performance for the year ended September 30, 2006. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify significant changes in financial position and results of operations. Please read this section in conjunction with the auditors' report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

The Authority is a Prepaid Inpatient Health Plan (PIHP) for a region consisting of Arenac, Bay, Huron, Montcalm, Shiawassee and Tuscola counties. The Authority subcontracts for Medicaid services and supports with affiliated community mental health services programs (its Affiliates), including Huron Behavioral Health, the Montcalm Center for Behavioral Health, Shiawassee County Community Mental Health Authority and Tuscola Behavioral Health Systems.

State General Fund revenue and other grants and earned contracts continue to be sourced directly from the state and are exclusively related to Arenac and Bay counties. Additionally, the Authority is the designated regional substance abuse coordinating agency, operating as Riverhaven Coordinating Agency, a division of the Authority. The Authority receives Medicaid, state block grant, other federal and state grants and local funding for the provision of substance abuse services in Arenac, Bay, Huron, Montcalm, Shiawassee and Tuscola counties.

## **OVERVIEW OF FINANCIAL STATEMENTS**

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are authority-wide financial statements and fund financial statements.

**Authority-wide financial statements** include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred," without regard to the timing of cash receipts or disbursements.

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

**Fund financial statements** contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the authority-wide statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as expenditures.

Fund financial statements are divided into two categories. These are governmental fund financial statements and proprietary fund financial statements.

Governmental fund financial statements show how the community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements show internal service funds reserved for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.

### **SUMMARY OF NET ASSETS**

The following summarizes the assets, liabilities and net assets on an authority-wide basis as of September 30, 2006 and 2005.

#### **Summary of Net Assets**

*As of September 30, 2006 and 2005*

(In \$000s)

	<u>2006</u>	<u>2005</u>
<b><u>Assets</u></b>		
Current assets	\$ 11,876	\$ 10,375
Restricted assets	7,312	6,036
Capital assets	<u>1,536</u>	<u>886</u>
<b>Total assets</b>	<b><u>\$ 20,724</u></b>	<b><u>\$ 17,297</u></b>
<b><u>Liabilities</u></b>		
Current liabilities	\$ 7,374	\$ 6,141
Noncurrent liabilities	<u>3,013</u>	<u>1,427</u>
<b>Total liabilities</b>	<b><u>10,387</u></b>	<b><u>7,568</u></b>
<b><u>Net Assets</u></b>		
Investment in capital assets	800	886
Restricted for capital purposes	533	292
Restricted for risk management	4,774	4,515
Restricted for community reinvestment	1,383	1,850
Restricted for substance abuse services	387	398
Unrestricted	<u>2,460</u>	<u>1,788</u>
<b>Total net assets</b>	<b><u>10,337</u></b>	<b><u>9,729</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 20,724</u></b>	<b><u>\$ 17,297</u></b>

**Current financial position** is defined as the excess of current assets over current liabilities. When current assets exceed current liabilities this is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position.

The current financial position (excess of current assets over current liabilities) was a positive \$4.5 million, an increase of \$.3 million or 6.3%, compared to prior year.



Current assets consist of cash and investments, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others and deferred revenue.

**Restricted assets** consist of cash, investments and accrued interest receivable. These assets are restricted for payment of compensated absences, restricted for capital purposes (funded depreciation), and restricted for risk management. Restricted assets of \$7.3 million have increased by \$1.3 million or 21.1%.

Net assets restricted for capital purposes (funded depreciation) was established in fiscal year 2003. Annual funding of this account is not to exceed the amount of depreciation expense and the maximum amount of this account is not to exceed the total of accumulated depreciation on capital assets. For fiscal year 2006, the Authority fully funded its annual depreciation expense of \$241 thousand, which represents depreciation expense on assets purchased after October 1, 2002.

At year end, the Medicaid risk reserve balance was \$4.8 million and is fully funded to its contractual maximum annual risk exposure of 7.5% of the funds at risk. At year-end, the balance in the state general fund (formula funds) risk management account was \$0, which can be funded to cover the risk exposure for increases in demand and for placements into state facility inpatient facilities.

**Capital assets** consist of property and equipment having an estimated useful life of more than one year. In fiscal year 2006, \$856 thousand was expended for capital acquisitions and \$67 thousand on construction in progress. Depreciation expense on previously existing and newly acquired capital assets was \$272 thousand (\$31 thousand representing depreciation on assets purchased prior to October 1, 2002 and \$241 thousand representing depreciation on assets purchased October 1, 2002 and later). The net change in capital assets was an increase of \$651 thousand for the year. When capital expenditures exceed depreciation expense, the net increase represents an investment or expansion of capital resources. Conversely, a net decrease represents a reduction in capital resources available for the future.

As of year-end, the net book value of capital assets was 34.2% of the original book value, compared to 19.7% at the end of the prior year. This percentage is a measure of the relative age of property and equipment. If property and equipment is relatively new, this percentage will be high. Conversely, if the percentage is low, it means that property and equipment is relatively old.

**Noncurrent liabilities** consist of the liability for compensated absences and long-term debt. Compensated absences include vested earned time off (vacation and sick) obligations. Long-term debt consists of a mortgage obtained to purchase and renovate property on Madison Avenue.

**Restricted net assets** include investment in capital assets, net of related debt, and amounts restricted for capital purposes (funded depreciation) and for risk management. These were discussed above.

Also included in this category is \$1.4 million of unspent Medicaid funds restricted for community investment (for mental health and developmental disability) and \$387 thousand unspent liquor tax proceeds restricted for substance abuse services in their county of origin. These funds are typically spent the next year.

**Unrestricted net assets** at the end of the year were \$2.5 million, a increase of \$672 thousand or 37.6% for the year. Unrestricted net assets were 11.9% of total assets, up from 10% from the prior year.

## **SUMMARY OF ACTIVITIES**

The following summarizes the revenue, expenses and change in net assets on an authority-wide basis for the years ended September 30, 2006 and 2005.

### **Summary of Activities**

*For the years ended September 30, 2006 and 2005*

*(In \$000s)*

	<u>2006</u>	<u>2005</u>
<b><u>REVENUE</u></b>		
Medicaid specialty supports and services		
Arenac and Bay counties	\$ 29,873	\$ 26,519
Prior year settlement	-	1,112
Counties under Affiliate subcontracts	32,815	32,100
Regional Substance Abuse	972	881
State general fund priority populations	4,466	4,020
Adults Benefit Waiver	454	466
State substance abuse block grants	2,081	1,922
Program service revenue	128	103
Grants and earned contracts	3,550	3,261
County appropriation	774	723
Affiliate local funds contributions	710	710
Liquor tax revenue	545	512
Interest income	765	360
Other local income	113	54
	<u>77,246</u>	<u>72,743</u>
<b><u>TOTAL REVENUE</u></b>	<b><u>77,246</u></b>	<b><u>72,743</u></b>
<b><u>EXPENSE</u></b>		
Personnel expense	13,535	13,505
Operating expense	28,761	24,296
Affiliate subcontract expense	32,815	32,099
Local funds contributed to State	1,255	1,255
Depreciation	272	310
	<u>76,638</u>	<u>71,465</u>
<b><u>TOTAL EXPENSE</u></b>	<b><u>76,638</u></b>	<b><u>71,465</u></b>
<b><u>EXCESS OF REVENUE OVER EXPENSE</u></b>	<b><u>608</u></b>	<b><u>1,278</u></b>
Transfers from Affiliates	-	-
	<u>-</u>	<u>-</u>
<b>Change in net assets</b>	<b><u>\$ 608</u></b>	<b><u>\$ 1,278</u></b>

**Excess of revenue over expenses** from activities for the current year was \$608 thousand or .8% of revenue.

**Revenue** for the year was \$77.2 million, an increase of \$4.5 million or 6.2% from the prior year.

**Medicaid specialty supports and services revenue** of \$63.7 million represents 82.4% of total revenue and increased \$3.0 million or 5.0% compared to the prior year.

**State general fund priority population revenue** (formula funding) of \$4.9 million represents 6.4% of total revenue and increased \$434 thousand or 1.1% compared to the prior year. This funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses. There was no prior year deferred revenue, no lapse of state general funds to MDCH in the current year nor was there a carryforward of state general funds.

**Program service revenue** of \$128 thousand includes charges for services for consumers not covered by Medicaid risk contracts or state general fund revenue sources. These represent .2% of total revenue and have decreased \$25 thousand or 24.3% over the prior year.

**Grants and earned contract revenue** of \$3.6 million includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 4.6% of total revenue and have increased \$289 thousand or 8.9% over the prior year.

**County appropriation revenue**, interest income and other local income are available to meet state matching fund requirements. These revenue sources constitute 2.1% of revenue and have increased \$515 thousand or 45.3% over the prior year.

**Total expense** of \$76.6 million has increased \$5.2 million or 7.2% compared to the prior year.

**Personnel expense** of \$13.5 million is 17.7% of total expense and has increased \$30 thousand or .2%.

**Operating expense** of \$28.8 million is 37.5% of total expense and has increased \$4.5 million or 18.4%.

#### **BUDGETARY HIGHLIGHTS**

The original budget for General Fund revenue was based off of fiscal year 2004-05 contract information. The final budget increased \$293,000 which represents additional funding from DCH for increases in State Facility Rates. The actual General Fund revenue received was over the final budget by 236 transfers that amounted to \$136,000 and a one time additional payment of \$75,000, totaling \$211,000.

The final budget for Federal and State grants was over the original budget by \$111,000. This represents 3 grants that were approved after the original budget was developed.

The final budget for Medicaid revenue was \$4.8 million over the original budget, which was based off of fiscal year 2004-05 payments. The final budget included additional funding related to QAAP for \$3.8 million and approximately \$1 million related to rate adjustments.

The final budget for Personnel Costs was over the original budget by \$1.7 million. The final budget included a VEBA contribution of \$1.5 million. The actual VEBA contribution was \$600,000 less than this final budgeted amount.

The final budget for operating expenditures was \$7.5 million more than the original budget. This difference is \$3.8 million related to QAAP, \$1.5 million in additional Medicaid funds approved for the affiliates, \$500,000 in residential expenses and \$750,000 and \$500,000 related to an increase in usage at Community Hospitals and State Facilities, respectively.

The final budget for capital outlay represents depreciation expense whereas the actual amount represents capital purchases that occurred during the fiscal year.

Bay-Arenac Behavioral Health  
Management's Discussion and Analysis  
For the year ended September 30, 2006

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<b><u>Revenue/Expenditure Line Item</u></b>	<b><u>Original Budget</u></b>	<b><u>Final Budget</u></b>	<b><u>Final Over (Under) Original Budget</u></b>
General Fund Revenue	\$3,959,584	\$4,252,632	\$293,048
Federal and state grants Revenue	298,545	409,484	110,938
Medicaid - DCH contract Revenue	58,791,730	63,562,420	4,770,690
Personnel costs	12,313,745	13,969,447	1,655,702
Operating expenditures	55,283,393	62,811,387	7,527,994

<b><u>Revenue/Expenditure Line Item</u></b>	<b><u>Final Budget</u></b>	<b><u>Actual</u></b>	<b><u>Actual Over (Under) Final Budget</u></b>
General Fund Revenue	\$4,252,632	\$4,466,272	\$213,640
Personnel costs	13,969,447	13,370,002	(599,445)
Capital Outlay	269,699	922,840	653,141

### **FUTURE OUTLOOK**

The state of Michigan continues to struggle in efforts to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health and specialty supports and services is unknown.

Management expects revenues to be flat at best. Support and service demand is expected to increase together with inflationary cost pressures. While the financial position of the Authority is currently healthy, the economic environment will continue to put pressure on the Authority's ability to meet the service and support needs of its constituents.

\* \* \* \* \*

As always, questions, comments and suggestions are welcomed from interested parties and the general public. These can be directed to management.

Bay-Arenac Behavioral Health  
Statement of Net Assets  
September 30, 2006

	Governmental Activities
<b>Assets</b>	
Current Assets	
Cash and cash equivalents	\$ 7,491,549
Investments	3,323,973
Accounts receivable, net	272,598
Interest receivable	49,838
Due from other governmental units	313,223
Prepaid items	424,664
	<u>11,875,845</u>
Total current assets	<u>11,875,845</u>
Noncurrent assets	
Cash and cash equivalents - restricted	7,311,861
Capital assets - depreciable, net	1,536,761
	<u>8,848,622</u>
Total noncurrent assets	<u>8,848,622</u>
Total assets	<u>20,724,467</u>
<b>Liabilities</b>	
Current liabilities	
Accounts payable	2,959,613
Accrued wages and other payroll liabilities	511,961
Due to other governmental units	3,829,802
Current portion of long-term Debt	72,810
	<u>7,374,186</u>
Total current liabilities	<u>7,374,186</u>
Noncurrent liabilities	
Long term debt, net of current portion	1,422,088
Compensated absences	1,591,064
	<u>3,013,152</u>
Total noncurrent liabilities	<u>3,013,152</u>
Total liabilities	<u>10,387,338</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	800,381
Restricted for capital purposes	532,762
Restricted for community investment	1,383,344
Restricted for risk management	4,774,486
Restricted for substance abuse services	387,444
Unrestricted	2,458,712
	<u>2,458,712</u>
Total net assets	<u>\$ 10,337,129</u>

The Notes to the Financial Statements are an integral part of this statement.

Bay-Arenac Behavioral Health  
Statement of Activities  
For the Year Ended September 30, 2006

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Health & Welfare - Mental Health	<u>\$ 76,638,951</u>	<u>\$ 66,816,120</u>	<u>\$ 7,501,766</u>	\$ (2,321,065)
General revenues				
Grants and contributions not restricted to specific programs				2,077,044
Unrestricted investment earnings				571,342
Restricted investment earnings				193,897
Miscellaneous revenues				<u>86,479</u>
Total general revenues and contributions				<u>2,928,762</u>
Change in net assets				607,697
Net assets - beginning of year				<u>9,729,432</u>
Net assets - end of year				<u>\$ 10,337,129</u>

The Notes to the Financial Statements are an integral part of this statement.

Bay-Arenac Behavioral Health  
Governmental Funds  
Balance Sheet  
September 30, 2006

	<u>General Fund</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 7,491,549
Investments	3,323,973
Accounts receivable, net	272,598
Interest receivable	48,866
Due from other governmental units	313,223
Prepaid items	424,664
Cash and cash equivalents - restricted	<u>2,538,347</u>
Total assets	<u><u>\$ 14,413,220</u></u>
<b>Liabilities</b>	
Accounts payable	\$ 2,959,613
Accrued wages and other payroll liabilities	511,961
Due to other governmental units	<u>3,829,802</u>
Total liabilities	<u>7,301,376</u>
<b>Fund balances</b>	
Reserved for capital purposes	532,762
Reserved for prepaid items	424,664
Reserved for community investment	1,383,344
Reserved for compensated absences	1,591,064
Reserved for substance abuse	387,444
Reserved for long term debt	1,494,898
Unreserved	<u>1,297,668</u>
Total fund balances	<u>7,111,844</u>
Total liabilities and fund balances	<u><u>\$ 14,413,220</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Bay-Arenac Behavioral Health  
Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Assets  
September 30, 2006

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Total fund balance - governmental funds	\$ 7,111,844
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	4,497,733
Deduct: accumulated depreciation	(2,960,972)

An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund	4,774,486
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Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Deduct: long-term debt	(1,494,898)
Deduct: compensated absences	(1,591,064)

Net assets of governmental activities	<u>\$ 10,337,129</u>
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Bay-Arenac Behavioral Health  
Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balances  
For the Year Ended September 30, 2006

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**Revenues**

State grants	
State General Fund - DCH Contract	\$ 4,466,272
Adults Benefit Waiver - DCH Contract	454,642
Substance abuse	2,080,569
Title XX	21,320
Other state revenues	<u>96,538</u>
Total state grants	<u>7,119,341</u>
Federal and State grants	<u>403,745</u>
Contributions - local units	
County appropriations	774,178
Affiliate contributions	710,280
PA 2 liquor tax	<u>544,920</u>
Total contributions - local units	<u>2,029,378</u>
Charges for services	
Medicaid - DCH contract	63,678,139
Medicaid - other	128,260
Medicaid - prior year settlement	(18,323)
Client and third party pay	90,807
Other earned contract revenue	<u>2,937,236</u>
Total charges for services	<u>66,816,119</u>
Interest and rents	
Interest	<u>571,342</u>
Other revenue	<u>112,826</u>
Total revenues	<u>77,052,751</u>

Bay-Arenac Behavioral Health  
Statement of Revenues, Expenditures and Changes In Fund Balances  
Governmental Funds  
For the Year Ended September 30, 2006

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**Expenditures**

Health & Welfare - Mental Health

Current:

Personnel costs	\$ 13,370,002
Operating expenditures	62,832,285
Capital outlay	922,840
Debt service payments	<u>35,102</u>
 Total expenditures	 <u>77,160,229</u>
 Revenues under expenditures	 <u>(107,478)</u>

**Other Financing Sources (Uses)**

Proceeds from issuance of long term debt	1,530,000
Transfers to internal service fund	<u>(65,323)</u>
 Total other financing sources	 <u>1,464,677</u>
 Net change in fund balance	 1,357,199
 Fund balance, beginning of year	 <u>5,754,645</u>
 Fund balance, end of year	 <u><u>\$ 7,111,844</u></u>

Bay-Arenac Behavioral Health  
Reconciliation of the Statement of Revenues, Expenditures and Changes  
In Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Year Ended September 30, 2006

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Net change in fund balances - total governmental funds \$ 1,357,199

Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However,  
in the statement of activities, the cost of those assets is allocated over  
their estimated useful lives as depreciation expense.

Add: capital outlay	922,840
Deduct: depreciation expense	(272,100)

An internal service fund is used by management to cover the risk of  
overspending the Managed Care Specialty Services Program contract.  
The net revenue (expense) of the fund attributable to those funds is  
reported with governmental activities.

Add: interest income from governmental internal service funds	193,897
Add: transfers from General Fund	65,323

Some expenses reported in the statement of activities do not require the  
use of current financial resources and therefore are not reported as  
expenditures in the funds.

Less: proceeds from issuance from debt	(1,530,000)
Add: principal repayments	35,102
Less: increase in accrual for compensated absences	<u>(164,564)</u>

Change in net assets of governmental activities	<u><u>\$ 607,697</u></u>
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Bay-Arenac Behavioral Health  
Proprietary Fund  
Statement of Net Assets  
September 30, 2006

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Governmental  
Activities  
Internal  
Service Funds

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**Assets**

Current assets

Interest receivable

\$ 972

Noncurrent assets

Cash and cash equivalents - restricted

4,773,514

Total assets

4,774,486

**Liabilities**

-

**Net Assets**

Restricted for risk management

\$ 4,774,486

The Notes to the Financial Statements are an integral part of this statement.

Bay-Arenac Behavioral Health  
Proprietary Fund  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
For the Year Ended September 30, 2006

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	Governmental Activities Internal Service Funds
Non-operating revenues	
Interest income	\$ 193,897
Transfer from General Fund	<u>65,323</u>
Change in net assets	259,220
Net assets, beginning of year	<u>4,515,266</u>
Net assets, end of year	<u><u>\$ 4,774,486</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Bay-Arenac Behavioral Health  
Proprietary Fund  
Statement of Cash Flows  
For the Year Ended September 30, 2006

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Governmental  
Activities  
Internal  
Service Funds

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**Cash Flows from Noncapital Financing Activities**

Transfer from General Fund

\$ 65,323

**Cash Flows from Investing Activities**

Interest income

192,925

Net increase in cash and cash equivalents

258,248

Cash and cash equivalents, beginning of year

4,515,266

Cash and cash equivalents, end of year

\$ 4,773,514

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of Bay-Arenac Behavioral Health have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the Authority's significant accounting policies:

### **Reporting Entity**

The Authority operates under the provisions of Act 258 - Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, and children with serious emotional disturbance. These supports and services are made available to residents of Arenac and Bay counties who meet eligibility and other criteria. As the community mental health services program for Arenac and Bay counties, the Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving the public interest.

The Authority was designated by the Michigan Department of Community Health as the Medicaid Prepaid Inpatient Health Plan (PIHP) for its affiliation regional service area including Arenac, Bay, Huron, Montcalm, Shiawassee and Tuscola counties. The Authority arranges for or provides supports and services for Medicaid-eligible persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. To fulfill its obligation under this designation, the Authority subcontracts with its other community mental health services program affiliates, specifically:

- Huron Behavioral Health,
- Montcalm Center for Behavioral Health,
- Shiawassee County Community Mental Health Agency, and
- Tuscola Behavioral Health Systems

Further, the Authority was designated by the Michigan Department of Community Health as the substance abuse coordinating agency operating as Riverhaven Coordinating Agency, a division of the Authority. The regional coordinating agency has responsibility for a service area that includes Arenac, Bay, Huron, Montcalm, Shiawassee and Tuscola counties. The Authority arranges supports and services for individuals with addictive disorder and substance abuse who meet eligibility and other criteria. To fulfill its obligation under this designation, the Authority subcontracts with a network of substance abuse providers.

In accordance with accounting principles generally accepted in the United States of America and GASB Statement 14 *The Financial Reporting Entity*, these financial statements present all of the Authority's funds. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Authority has no component units.

### **Government-wide Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of the Authority. Governmental activities are normally supported by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor have been met.

Governmental Fund Financial Statements – The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the accrual basis of accounting. The difference between the accrual basis of accounting and modified accrual basis of accounting for these revenues is not material to the financial statements.

Expenditures are recorded when the related fund liability is incurred. Exceptions to this general rule include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, 2006, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.



**Proprietary Fund Financial Statements** – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### **Fund Accounting**

The financial activities of the Authority are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Authority uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the Authority that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds.

### **Governmental Funds**

**General Fund** – This fund account is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

### **Proprietary Funds**

**Internal Service Fund** – This fund represents amounts restricted for risk management which have been set aside to fund the net uninsured exposure of potential shortfalls of Michigan Department of Community Health risk contract revenues.

### **Budgetary Data**

The Authority's general fund budget is under formal budgetary control and follows both the Authority's and Michigan Department of Community Health's annual budget process in establishing the budgetary data presented in the financial statements. The annual fiscal budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America and the requirements of the Michigan Department of Community Health. All appropriations lapse at year end.

### **Cash and Cash Equivalents**

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and/or certificates of deposit and commercial paper which matures within 90 days.

A specific amount of cash has been restricted for future payments of compensated absences, depreciation reserve and risk management reserve.

**Investments**

The Authority's investments are considered to be certificates of deposit which are valued at cost and commercial paper which is valued at cost if it matures within one year. If the commercial paper has a maturity date over one year it is then valued at fair market.

**Receivables**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and PIHP affiliates.

**Inventories**

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 for acquisitions on or after October 1, 2002 and \$1,000 for acquisitions before October 1, 2002 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Authority are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Equipment and furnishings	5
Computers	5
Vehicles	5
Leasehold improvements	7-30
Buildings	40

#### **Incurred but not Reported Claims Liability**

The amounts recorded in current liabilities include amounts for incurred inpatient, residential and community provider claims liability based on management's estimate. The Authority may not be billed for these until several months after the date of service. Therefore, the liability is not liquidated within the normal 60-day period after year end. Also, the actual cost may vary from the estimated amount for a variety of reasons that include, but are not limited to, retroactive consumer eligibility or cost recovery from other third party payers.

#### **Deferred Revenue**

Deferred revenues arise when the authority receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

#### **Compensated Absences**

Authority policy allows full time employees to accumulate earned time off at various rates, depending on the employees' length of service with the Authority. Governmental fund financial statements record expenditures when employees are paid for these compensated absences. The government-wide financial statements record expenditures and the related liability when these compensated absences are earned by employees.

#### **Governmental Fund – Fund Balance Reserves and Designations**

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for compensated absences are examples of the latter.

#### **NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

General Fund expenditures were greater than the budget by \$379,395. The Board of Directors authorized the financing of the purchase and renovation of a building for \$1,500,000.

#### **NOTE 3 - DEPOSITS AND INVESTMENTS**

The Authority's deposits and investments were reported in the basic financial statements in the following categories:

Cash and cash equivalents	\$ 7,491,549
Investments	3,323,973
Cash and cash equivalents - restricted	<u>7,311,861</u>
Total	<u>\$18,127,383</u>

The breakdown between deposits and investments for the Authority is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 11,456,492
Investments	<u>6,670,891</u>
Total	<u><u>\$ 18,127,383</u></u>

As of September 30, 2006 the Authority had the following investments:

Investment	Rating	Maturities	Fair Value	Cost
Commercial paper	A1, P1	10/5/2006	\$ 1,238,757	\$ 1,238,757
Commercial paper	P1, F1	10/17/2006	1,129,204	1,116,494
Commercial paper	A1, P1	10/31/2006	995,410	991,667
Commercial paper	P1, F1	4/23/2007	2,075,380	2,073,298
Commercial paper	A1, P1	5/31/2007	<u>1,251,734</u>	<u>1,250,675</u>
Total			<u><u>\$ 6,690,485</u></u>	<u><u>\$ 6,670,891</u></u>

*Interest rate risk* – The Authority manages its exposure to declines in fair value by maintaining a weighted average maturity of twelve months or less.

*Credit risk* – State statutes and the Authority's investment policy authorize the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligations repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. As of September 30, 2006, the Authority's investment in commercial paper was rated as stated above. The ratings consisted of the following: A-1 by Standards and Poor's, P-1 by Moody's Investor Services and F1 by Fitch.

*Concentration of credit risk* – The Authority's investment policy requires diversification by security type and institution. With the exception of U.S. Treasury securities and authorized investment pools, no more than one-third of the total investment portfolio will be invested in a single security type or with a single financial institution.

*Custodial credit risk* – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. Non-negotiable, non-collateralized certificates, as is the law in the State of Michigan, shall be evidenced by a safekeeping receipt from the issuing bank. As of September 30, 2006 \$ 9,954,884 the District's bank balance of \$ 10,636,034 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial credit risk – investments* – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2006 \$5,690,485 was exposed to custodial risk because it was uninsured and uncollateralized.

#### NOTE 4 - INTERFUND TRANSFERS

The Authority transferred \$ 120,423 of Medicaid dollars from the General Fund (of the Authority) to the Internal Service Fund risk reserve and transferred \$55,100 of General Fund dollars (appropriated by the State of MI to provide indigent care) from the Internal Service Fund risk reserve to the General Fund (of the Authority) during the fiscal year. These transfers are in accordance with the criteria established by the Michigan Department of Community Health to meet expected future risk corridor requirements and to meet current expenditures of the managed care specialty supports and services program contracts.

#### NOTE 5 - DUE FROM OTHER GOVERNMENTAL UNITS

Due from other governmental units as of September 30, 2006 consists of the following:

State of Michigan - Medicaid	\$ 133,205
State of Michigan - other	96,656
Other governmental units	<u>83,362</u>
Total	<u><u>\$ 313,223</u></u>

#### NOTE 6 - CAPITAL ASSETS

Depreciable capital asset activity for the year ended September 30, 2006 was as follows:

	Balance October 1, 2005	Additions	Disposals and Adjustments	Balance September 30, 2006
Other capital assets				
Equipment and furniture	\$ 3,539,379	\$ 98,497	\$ 420,032	\$ 3,217,844
Buildings	-	736,380	-	736,380
Vehicles	338,847	20,718	34,087	325,478
Leasehold improvements	156,802	-	6,016	150,786
Construction in progress	-	67,245	-	67,245
Subtotal	<u>4,035,028</u>	<u>922,840</u>	<u>460,135</u>	<u>4,497,733</u>
Accumulated depreciation				
Equipment and furniture	2,797,763	223,753	420,032	2,601,484
Buildings		9,205	-	9,205
Vehicles	295,968	17,654	34,087	279,535
Leasehold improvements	<u>55,276</u>	<u>21,488</u>	<u>6,016</u>	<u>70,748</u>
Subtotal	<u>3,149,007</u>	<u>272,100</u>	<u>460,135</u>	<u>2,960,972</u>
Net capital assets	<u><u>\$ 886,021</u></u>	<u><u>\$ 650,740</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,536,761</u></u>

The Authority has established a reserve for capital purposes, otherwise known in the Michigan Mental Health Code as funded depreciation. Amounts funded to this reserve are restricted for purchase, replacement or improvement of capital assets or retirement of debt related to such capital purposes. The reserve was fully funded for depreciation expense. The balance of the reserve as of September 30, 2006 is \$532,762.

#### NOTE 7 - DUE TO OTHER GOVERNMENTAL UNITS

Due to other governmental units as of September 30, 2006 consist of the following:

State of Michigan - inpatient residential care	\$ 433,851
State of Michigan - cost settlement	42,844
State of Michigan - leases	69,660
State of Michigan - Quality Assurance Assessment Program (QAAP)	958,786
Other CMH Boards - Access Alliance	<u>2,324,661</u>
 Total	 <u><u>\$ 3,829,802</u></u>

#### NOTE 8 - LONG-TERM DEBT

Long-term debt consists of a mortgage payable and compensated absences. The mortgage is secured by real property acquired with the proceeds of the mortgage. The obligations can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Mortgage payable	\$ -	\$ 1,530,000	\$ 35,102	\$ 1,494,898	\$ 72,810
Compensated absences	<u>1,426,500</u>	<u>164,564</u>	<u>-</u>	<u>1,591,064</u>	<u>-</u>
	<u>\$ 1,426,500</u>	<u>\$ 1,694,564</u>	<u>\$ 35,102</u>	<u>\$ 3,085,962</u>	<u>\$ 72,810</u>

Maturities of the mortgage payable are as follows for the years ending September 30:

2007	\$ 72,810
2008	76,428
2009	80,226
2010	84,214
2011	88,399
2011-2021	<u>1,092,821</u>
	<u>\$ 1,494,898</u>

The entire vested amount of accrued compensated absences is considered long-term as the amount expended each year is expected to be offset by vacation time earned for the year.

## **NOTE 9 - RISK MANAGEMENT**

### **Michigan Municipal Risk Management Authority (MMRMA)**

The Authority participates in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and vehicle physical damage coverage.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense costs, for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds MMRMA's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the MMRMA's resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

MMRMAs coverage limits are \$15,000,000 for liability, \$1,500,000 for vehicle physical damage, and \$200,000,000 for combined aggregate property coverage. There is a \$250 deductible per vehicle for vehicle physical damage and \$250 per occurrence for property and crime.

### **Travelers Casualty and Surety Company of America**

The Authority has crime coverage through Travelers Casualty and Surety Company of America. The coverage limit is \$4,000,000 with a \$ 1,000 deductible per occurrence for crime. If a covered loss exceeds the coverage limit, all further payments for such loss are the sole obligation of the Authority.

### **Managed Care Risk Contracts**

The Authority has managed care risk contracts with the State of Michigan for Medicaid Specialty Supports and Services and for State General Fund Formula Funding for priority populations. The Authority self-insures the risk for these contracts with an Internal Service Fund risk reserve. The Authority holds the Medicaid risk contract and reserve for the region; including the service areas of its affiliates. The State General Fund risk contract and reserve covers only the Authority's specific service area. The contracts provide for the use of contract funds to establish the risk reserve that is restricted to meet future risk obligations. Expenditures from the Internal Service Fund risk reserve will occur if, in any one fiscal year, the Authority finds it necessary to expend more than current resources to provide contractually obligated supports and services for eligible individuals.

## **NOTE 10 - DEFINED BENEFIT PENSION PLAN**

**Plan Description** – The Authority participates in the Bay County Employees' Retirement System (the Plan), a single-employer defined benefit pension plan that covers substantially all of the employees of the Authority. The Plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The Plan does not issue stand-alone financial statements and is included in the financial report of Bay County.

**Basis of Accounting** – The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized when due and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable, in accordance with the terms of the Plan. Administrative costs are financed through investment earnings.

**Funding Policy/Contributions** – The Authority funds normal costs which are based on actuarially determined rates, expressed as percentages of annual covered payroll, and which are sufficient to accumulate assets to pay benefits when due. The provisions of the Plan require the Authority to contribute at an actuarially determined rate. Plan members contribute at a rate of 4 percent of their annual salary. The Authority pays the plan member contributions for the Authority employees, except for union negotiated contracts which pay their own contributions. Based upon the actuarial valuation dated December 31, 2005, the employer contributes at a rate of 1.11% of annual salaries for calendar year 2005 and at a rate of 2.53% of annual salaries for calendar year 2006. The contribution requirements of plan members are established and may be amended by the Authority of Commissioners in accordance with County policies, union contracts, and plan provisions.

**Classes of Employees** – The Plan's membership consists of the following at December 31, 2005, the date of the last actuarial valuation:

	<u>County</u>	<u>Bay-Arenac Behavioral Health</u>
Retirees and beneficiaries receiving benefits	<u>547</u>	<u>22</u>
Terminated plan members entitled to, but not yet receiving, benefits	<u>81</u>	<u>17</u>
Active plan members	<u>1,197</u>	<u>211</u>

**Annual Pension Cost** – For the year ended September 30, 2006, the contributions to the plan were as follows:

Authority contribution on behalf of employees	\$ 551,004
Employee contribution	21,908

#### **NOTE 11 - EMPLOYMENT BENEFITS**

Upon retirement, an eligible retiree and his/her spouse may be provided health insurance based on credited years of service. Each credited year of service equates to a 5% employer paid health insurance premium. Health insurance benefits will not be provided to deferred retirees, but only to those who will be drawing retirement benefits immediately upon retirement from the Authority. The following table summarizes Bay-Arenac Behavioral Health Authority's determination of unfunded accrued liability as of December 31, 2004 based on an actuarial valuation.

**Accrued Liability:**

Retirees and beneficiaries	\$ 1,423,251
Active members	<u>4,665,108</u>
Total accrued liability	6,088,359
Valuation of assets	<u>3,202,113</u>
Unfunded accrued liability at December 31, 2004	<u>\$ 2,886,246</u>



The Authority based contributions on the prior December 31, 2002 actuarial valuation and contributed \$1,039,712 to the Bay County Voluntary Benefit Association (VEBA – a retiree health plan), for the year ended September 30, 2004, \$1,846,000 for the year ended 2005 and \$920,698 for the year ended 2006. Contributions that are made by the Authority are discretionary based on the plan.

#### **NOTE 12 - CONTINGENT LIABILITIES**

Amounts received or receivable from federal, state and other grantor agencies are subject to audit and adjustment by the grantor. Any disallowed amounts, including amounts already collected, may constitute a liability. The amount, if any, of costs that may be disallowed cannot be determined at this time.

The Authority is currently disputing a Michigan Department of Community Health (MDCH) audit disallowance for the audit period fiscal year 2001 and 2002. The MDCH auditors proposed audit adjustments totaling approximately \$2,568,000 in disallowed expenditures. The Authority is awaiting the written audit report at which time they will appeal the proposed audit adjustments to an MDCH administrative law judge. Bay-Arenac Behavioral Health disagrees with the proposed audit adjustments and intends to vigorously contest the adjustments once they are formalized in the written audit report.

#### **NOTE 13 - OPERATING LEASES**

Bay-Arenac Behavioral Health has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the lease agreements are not reflected in the financial statements.

The following is a schedule of future minimum rental payments required under the operating leases that have initial or remaining non-cancelable lease terms as of September 30, 2006:

<u>Year Ending September 30,</u>	<u>Amount</u>
2007	\$ 700,798
2008	458,074
2009	154,749
2010	154,749
2011	74,127
2012-2013	<u>86,336</u>
Total	<u>\$ 1,628,833</u>

Lease expense for the year ended September 30, 2006 was \$878,055. Bay-Arenac Behavioral Health also has 2 additional leases which are operated on a month to month lease. The total payments on these leases are \$760 per month.

Bay-Arenac Behavioral Health  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget and Actual -  
General Fund  
For the Year Ended September 30, 2006

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
State grants				
Department of Community Health Contract				
General Fund	\$ 3,959,584	\$ 4,252,632	\$ 4,466,272	\$ 213,640
Adults Benefit Waiver	428,300	420,500	454,642	34,142
Substance Abuse	1,922,161	2,073,591	2,080,569	6,978
Title XX	21,320	21,320	21,320	-
Other state revenues	90,216	96,701	96,538	(163)
Total state grants	6,421,581	6,864,744	7,119,341	254,597
Federal and state grants	298,545	409,484	403,745	(5,739)
Contributions - local units				
County appropriations	774,179	774,180	774,178	(2)
Affiliate contributions	710,280	710,280	710,280	-
PA 2 liquor tax	512,156	544,920	544,920	-
Total contributions - local units	1,996,615	2,029,380	2,029,378	(2)
Charges for services				
Medicaid - DCH contract	58,791,730	63,562,420	63,678,139	115,719
Medicaid - other	109,554	110,628	128,260	17,632
Medicaid - prior year settlement	-	(47,420)	(18,323)	29,097
Client and third party pay	10,461	86,938	90,807	3,869
Other earned contract revenue	2,678,016	3,040,897	2,937,236	(103,661)
Total charges for services	61,589,761	66,753,463	66,816,119	62,656
Interest and rents				
Interest	234,373	506,584	571,342	64,758
Other revenues	53,362	95,612	112,826	17,214
Total revenues	70,594,237	76,659,267	77,052,751	393,484

Bay-Arenac Behavioral Health  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget and Actual -  
General Fund  
For the Year Ended September 30, 2006

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
<b>Expenditures</b>				
Health & Welfare - Mental Health				
Current:				
Personnel costs	\$ 12,313,745	\$ 13,969,447	\$ 13,370,002	\$ (599,445)
Operating expenditures	55,013,694	62,541,688	62,832,285	290,597
Capital outlay	269,699	269,699	922,840	653,141
Debt service payments	-	-	35,102	35,102
Total expenditures	67,597,138	76,780,834	77,160,229	379,395
Revenues over (under) expenditures	2,997,099	(121,567)	(107,478)	14,089
<b>Other Financing Sources (Uses)</b>				
Proceeds from issuance of long term debt				
	-	-	1,530,000	1,530,000
Transfers to Internal Service Fund	-	-	(65,323)	(65,323)
Total other financing sources	-	-	1,464,677	1,464,677
Net change in fund balance	2,997,099	(121,567)	1,357,199	1,478,766
Fund balance, beginning of year	5,754,645	5,754,645	5,754,645	-
Fund balance, end of year	\$ 8,751,744	\$ 5,633,078	\$ 7,111,844	\$ 1,478,766

Bay Arenac Behavioral Health - Riverhaven Coordinating Agency  
Substance Abuse Prevention and Treatment  
Schedule of Budgeted, Reported and Audited Amounts  
For the Year Ended September 30, 2006

Fund Source	Budgeted (FINAL)	Reported (FINAL RER)	Audited Expenditures	Variance (Audited- Reported)	Local Match Funds
<b>A State Agreement</b>					
1 Community Grant	\$1,891,906	\$1,891,906	\$1,891,906	\$ -	
2 SDA	-	-	-	-	
3 SIG	135,885	135,885	135,885	-	
4 Methamphetamine	-	-	-	-	
<b>A Subtotal</b>	<u>2,027,791</u>	<u>2,027,791</u>	<u>2,027,791</u>	<u>-</u>	
<b>B Medicaid</b>					
1 Current year PEPM	1,253,747	1,253,740	1,253,740	-	
2 Reinvestment savings	-	-	-	-	
<b>B Subtotal</b>	<u>1,253,747</u>	<u>1,253,740</u>	<u>1,253,740</u>	<u>-</u>	
<b>C Adult Benefit Waiver (ABW)</b>					
1 Current year PEPM	55,292	55,292	55,292	-	
2 Savings	-	-	-	-	
<b>C Subtotal</b>	<u>55,292</u>	<u>55,292</u>	<u>55,292</u>	<u>-</u>	
<b>D MI CHILD</b>					
1 Current year PEPM	6,173	4,515	4,515	-	
2 Savings	-	-	-	-	
<b>D Subtotal</b>	<u>6,173</u>	<u>4,515</u>	<u>4,515</u>	<u>-</u>	
<b>E Local</b>					
1 Current year PA2	544,920	544,920	544,920	-	\$ 544,920
2 PA2 fund balance	10,966	10,966	10,966	-	10,966
3 Other local (R325.4152 excluding subsection (1)(b))	-	-	-	-	-
<b>E Subtotal</b>	<u>555,886</u>	<u>555,886</u>	<u>555,886</u>	<u>-</u>	
<b>F Fees &amp; Collections- Subtotal (R325.4151 (1)(d))</b>	<u>171,156</u>	<u>171,156</u>	<u>171,156</u>	<u>-</u>	171,156
<b>G Other Contracts &amp; Sources (Subtotal)</b>	<u>480</u>	<u>480</u>	<u>480</u>	<u>-</u>	
<b>Grand Total of Subtotals A-G</b>	<u><b>\$ 4,070,525</b></u>	<u><b>\$ 4,068,860</b></u>	<u><b>\$ 4,068,860</b></u>	<u><b>\$ -</b></u>	
<b>Amount billable to MDCH (Section A audited subtotal)</b>			<b>\$ 2,027,791</b>		
<b>Total MDCH payments</b>			<u><b>2,027,791</b></u>		
<b>(Overpayment)/Underpayment</b>			<u><u>-</u></u>		
<b>Local match funds total</b>					<b>\$727,042</b>
<b>Local match requirement [(grand total of audited expenditures-B-C-D-G) * 10%]</b>					<u><b>275,483</b></u>
<b>Local match (shortfall)/excess</b>					<u><u><b>\$451,559</b></u></u>

Bay-Arenac Behavioral Health - Riverhaven Coordinating Agency  
Substance Abuse Prevention and Treatment  
Schedule of Expenditures and Funding Sources by Program  
Year Ended September 30, 2006

Program	Budgeted (FINAL)	Reported (FINAL RER)	Audited Expenditures				Audited Funding Sources								Variance (Audited- Reported)	Questioned Cost (Expenditures - Funding)
			Gross Amount	Less Medicaid	Less Fees	Net Amount	State Agreement	SDA	PA2	Other Local	Other Sources	ABW	MI CHILD	Total Funding		
Administration	\$ 512,563	\$ 512,583	\$ 512,583	\$ 237,404	\$ 1,520	\$ 273,659	\$ 273,659	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 273,659	\$ -	\$ -
Prevention	616,727	616,727	616,727	-	-	616,727	504,126	-	112,121	-	480	-	-	616,727	-	-
Treatment	2,538,293	2,536,636	2,536,636	875,482	169,636	1,491,518	1,009,448	-	422,262	-	-	55,292	6,173	1,493,175	-	(1,657)
Women's Services	223,143	223,143	223,143	140,854	-	82,289	82,289	-	-	-	-	-	-	82,289	-	-
HIV/EIP Training	43,886	43,886	43,886	-	-	43,886	22,384	-	21,502	-	-	-	-	43,886	-	-
SIG	135,885	135,885	135,885	-	-	135,885	135,885	-	-	-	-	-	-	135,885	-	-
Methamphetamine	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Totals	\$ 4,070,497	\$ 4,068,860	\$ 4,068,860	\$ 1,253,740	\$ 171,156	\$ 2,643,964	\$ 2,027,791	\$ -	\$ 555,885	\$ -	\$ 480	\$ 55,292	\$ 6,173	\$ 2,645,621	\$ -	\$ (1,657)
							\$2,027,791									
Reconciliation of PA2 Funds:							Reconciliation of Medicaid Managed Care (PEPM) Funds:									
Beginning balance			\$ 398,409		PEPM payments received			\$ 972,319								
Current year PA2			544,920		Medicaid savings carried over			-								
Expenditures			(555,885)		Expenditures			(1,253,740)								
Ending balance			\$ 387,444		Medicaid savings carryforward			-								
					Transfer from PIHP			\$ (281,421)								

Notes:

1. MI Child revenues exceeded expenditures in FY06 by \$1,657

Bay-Arenac Behavioral Health  
Supporting Schedule of Personnel Costs  
For the Year Ended September 30, 2006

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	<u>General Fund</u>
<b>Personnel Costs</b>	
Salaries and wages	\$ 9,352,011
Fringe benefits	3,987,031
Board per diem	<u>30,960</u>
 Total personnel costs	 <u><u>\$ 13,370,002</u></u>

Bay-Arenac Behavioral Health  
Supporting Schedule of Operating Expenditures  
For the Year Ended September 30, 2006

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	<u>General Fund</u>
<b>Operating Expenditures</b>	
Advertising	\$ 41,787
Communications	280,459
Consumer related	204,479
Contractual services	800,252
Education and training	14,156
Gain/loss on disposal of capital asset	(850)
Insurance	89,131
Interest expense	36,825
License and fees	4,854
Local funds paid to State	1,255,438
Membership and dues	21,136
Other	4,552
Postage	39,875
QAAP expense	3,815,949
Publications	7,004
Purchased services	170,826
Purchased services, affiliates	35,097
Recruitment	22,096
Rental equipment	14,772
Rental expense - buildings and other	714,225
Rental expense - State leases	422,732
Repairs and maintenance	186,945
Software license maintenance	356,201
Supplies and small equipment purchases	273,326
Transportation and vehicle expense	45,692
Travel and conferences	226,075
Utilities	91,737
Ancillary services-PT, ST, OT, RN, Dietary	1,094,824
Case management and supports coordination	950,614
Community inpatient services	1,434,926
Outpatient services	2,943,655
Residential Home services	9,545,807
Skill building/supportive employment	2,292,081
State inpatient services	1,792,372
Subcontract costs	32,815,389
Prevention	787,846
	<hr/>
Total operating expenditures	<u>\$ 62,832,285</u>



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**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on  
an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards**

Board of Directors  
Bay-Arenac Behavioral Health  
Bay City, Michigan

We have audited the financial statements of Bay-Arenac Behavioral Health as of and for the year ended September 30, 2006, and have issued our report thereon dated January 9, 2007. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Bay-Arenac Behavioral Health's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bay-Arenac Behavioral Health's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Yeo & Yeo, P.C.*

Saginaw, Michigan  
January 9, 2007





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## **Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

Board of Directors  
Bay-Arenac Behavioral Health  
Saginaw, Michigan

### Compliance

We have audited the compliance of Bay-Arenac Behavioral Health with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. Bay-Arenac Behavioral Health's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Bay-Arenac Behavioral Health's management. Our responsibility is to express an opinion on Bay-Arenac Behavioral Health's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bay-Arenac Behavioral Health's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Bay-Arenac Behavioral Health's compliance with those requirements.

In our opinion, Bay-Arenac Behavioral Health complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

### Internal Control over Compliance

The management of Bay-Arenac Behavioral Health is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Bay-Arenac Behavioral Health's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Bay-Arenac Behavioral Health as of and for the year ended September 30, 2006, and have issued our report thereon dated January 9, 2007. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Yeo & Yeo, P.C.*

Saginaw, Michigan  
January 9, 2007

Bay-Arenac Behavioral Health  
Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2006

Federal Grantor/Pass-Through <u>Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Award Amount</u>	<u>Expenditures</u>
Department of Health and Human Services			
Passed through Michigan Department of Community Health			
Block Grant for Prevention and Treatment of			
Substance Abuse	93.959	\$ 2,027,791	\$ 1,891,906
Less State Funding		(433,532)	<u>(530,242)</u>
			<u>1,361,664</u>
Passed through Michigan Department of Community Health			
SIG - Bay Area Social Intervention Services	93.243	131,927	<u>130,681</u>
Passed through Michigan Department of Community Health			
SIG - Bay Area Social Intervention Services	93.630	100,000	<u>42,126</u>
Department of Health and Human Services			
MIA OBAR PASARR	93.778	90,000	97,677
Less State Funding		(22,500)	<u>(24,419)</u>
			<u>73,258</u>
Center for Mental Health Services			
Block Grant for Community Mental Health Services 05 B1 MI CMHS	93.958	151,589	<u>133,620</u>
Substance Abuse and Mental Health Administration for			
Mental Health Services			
McKinney Homeless Act	93.150	44,600	44,600
Less State Funding		(23,000)	<u>(23,000)</u>
			<u>21,600</u>
Passed through Michigan Family Independence Agency			
Strong Families -- Safe Children	93.556	31,707	<u>31,707</u>
Total Department of Health and Human Services			<u>1,794,656</u>
Housing and Urban Development			
Passed through Michigan Department of Community Health			
Supportive Housing Program	14.235	18,044	<u>17,972</u>
Passed through Michigan Department of Community Health			
Supportive Housing Program	14.238	17,440	<u>17,440</u>
Total Federal programs			<u>\$ 1,830,068</u>

Bay-Arenac Behavioral Health  
Notes to the Schedule of Expenditures of Federal Awards  
September 30, 2006

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NOTE 1 - GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of Bay-Arenac Behavioral Health. All federal financial awards passed through other government agencies are included on the schedule.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.

NOTE 3 - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal financial assistance revenue is included in the basic financial statements as federal and state grants.

Bay-Arenac Behavioral Health  
Schedule of Findings and Questioned Costs  
September 30, 2006

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

*Financial Statements*

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes      X   no
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ yes      X   none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes      X   no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ yes      X   no
- Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_\_\_\_ yes      X   none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? \_\_\_\_\_ yes      X   no

Identification of major programs:

*CFDA Number(s)*

*Name of Federal Program or Cluster*

93.959

Block Grant for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee?   X   yes    \_\_\_\_\_ no

Bay-Arenac Behavioral Health  
Schedule of Findings and Questioned Costs  
September 30, 2006  
(continued)

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**SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS**

There were no findings related to the financial statements which are required to be reported in accordance with generally accepted government auditing standards for the year ended September 30, 2006.

**SECTION III - FEDERAL AWARD FINDINGS**

There were no findings or questioned costs for Federal Awards for the year ended September 30, 2006.

Bay-Arenac Behavioral Health  
Summary Schedule of Prior Audit Findings  
September 30, 2006

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There were no audit findings for the year ended September 30, 2005.